

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|---------------------------------|--|----------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Colon Community Schools | County St. Joseph |
| Fiscal Year End June 30, 2006 | Opinion Date October 9, 2006 | Date Audit Report Submitted to State December 1, 2006 | |

We affirm that:

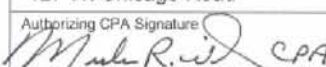
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) |
|--|-------------------------------------|---|
| Financial Statements | <input checked="" type="checkbox"/> | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | No comments and recommendations |
| Other (Describe) | <input checked="" type="checkbox"/> | Govn. Auditing Stds. Report on Internal Controls and Compliance |
| Certified Public Accountant (Firm Name) Norman & Paulsen, P.C. | | Telephone Number 269-651-3228 |
| Street Address 127 W. Chicago Road | | City Sturgis |
| | | State MI |
| | | Zip 49091 |
| Authorizing CPA Signature  CPA | | Printed Name Michael R. Wilson |
| | | License Number 1101017570 |

COLON COMMUNITY SCHOOLS
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2006

Colon Community Schools

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Colon Community Schools

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Colon Community Schools, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Colon Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Colon Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Colon Community Schools as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Board of Education
Colon Community Schools

The administration's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Colon Community Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2006, on our consideration of Colon Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Norman J. Paulson, P.C.

October 9, 2006

COLON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS YEAR ENDED June 30, 2006

This section of Colon Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Colon Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

COLON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

COLON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

| TABLE I | June 30, | |
|---|---------------------|---------------------|
| | <u>2006</u> | <u>2005</u> |
| Assets | | |
| Current and other assets | \$ 1,768,207 | \$ 1,833,735 |
| Capital assets - Net of accumulated depreciation | <u>1,387,847</u> | <u>1,465,826</u> |
| Total assets | 3,156,054 | 3,299,561 |
| Liabilities | | |
| Current liabilities | 1,178,722 | 1,146,584 |
| Long-term liabilities | <u>372,988</u> | <u>530,353</u> |
| Total liabilities | 1,551,710 | 1,676,937 |
| Net Assets | | |
| Invested in property and equipment - net of related debt | 910,518 | 884,935 |
| Unrestricted | <u>693,826</u> | <u>737,689</u> |
| Total net assets | <u>\$ 1,604,344</u> | <u>\$ 1,622,624</u> |

COLON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$1,604,344 at June 30, 2006. Capital assets, net of related debt totaling \$910,518 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$693,826 was unrestricted.

The \$693,826 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2006 and 2005.

TABLE 2

| | June 30, | |
|----------------------------------|---------------------------|----------------------------|
| | <u>2006</u> | <u>2005</u> |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 339,372 | \$ 369,678 |
| Grants and catagoricals | 1,008,509 | 1,123,889 |
| General revenue: | | |
| Property taxes | 633,091 | 625,453 |
| State foundation allowance | 4,965,803 | 5,046,861 |
| Interest and other | <u>61,207</u> | <u>53,992</u> |
| Total revenue | 7,007,982 | 7,219,873 |
| Function/Program Expenses | | |
| Instruction | 4,095,964 | 4,463,540 |
| Support services | 2,210,896 | 2,130,890 |
| Food services | 369,552 | 338,518 |
| Athletics | 171,490 | 166,430 |
| Interest on long-term debt | 27,637 | 46,873 |
| Depreciation (unallocated) | <u>150,723</u> | <u>183,502</u> |
| Total expenses | <u>7,026,262</u> | <u>7,329,753</u> |
| Decrease in net assets | <u><u>\$ (18,280)</u></u> | <u><u>\$ (109,880)</u></u> |

COLON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

As reported in the statement of activities, the cost of all governmental activities this year was \$7,026,262. Certain activities were partially funded from those who benefited from the programs \$(339,372) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(1,008,509). We paid for the remaining "public benefit" portion of our governmental activities with \$633,091 in taxes, \$4,965,803 is State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$18,280. Key reasons for the change in net assets were capitalizable expenditures and the repayment of note principal. The decrease in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$768,048, which is a decrease of \$120,301 from last year. In the General Fund, our principal operating fund, the fund balance decreased \$42,367 to \$749,834.

Our Food Service Fund fund balance decreased \$77,934 to \$18,214.

Our Athletic Fund is maintained at a zero fund balance and was supported by transfers of \$108,683 from the General Fund.

COLON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were decreased by \$101,534, to better reflect state per student foundation funding, adjustments to categorical funding and various grant programs. Actual revenues were under final budgeted revenues by \$228,585. This was primarily due to expenditure driven grant revenues which have been carried over to the next year.

Budgeted expenditures were increased by \$79,444 to better reflect additional costs. Actual expenditures ended the year under the final budget by \$379,112. This was primarily due to grant expenditures deferred to next year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School District had \$4,616,828 invested in a broad range of capital assets including land, buildings, buses and equipment. This amount represents a net increase (including additions and disposals) of \$16,706 from last year.

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|----------------------------|----------------------------|
| Land | \$ 138,000 | \$ 138,000 |
| Buildings and improvements | 2,831,546 | 2,831,546 |
| Buses and other vehicles | 963,177 | 946,471 |
| Furniture and equipment | <u>684,105</u> | <u>684,105</u> |
| Total capital assets | 4,616,828 | 4,600,122 |
| Less accumulated depreciation | <u>3,228,981</u> | <u>3,134,296</u> |
| Net capital assets | <u><u>\$ 1,387,847</u></u> | <u><u>\$ 1,465,826</u></u> |

COLON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

Debt

At the end of this year, the School District had long-term debt obligations totaling \$547,329 outstanding versus \$720,891 in the previous year - a change of 24 percent. The debt obligations consisted of the following:

| | <u>2006</u> | <u>2005</u> |
|--------------------------|-------------------|-------------------|
| General Obligation Bonds | \$ 40,224 | \$ 43,521 |
| Notes payable | 437,105 | 537,370 |
| Severance pay agreements | <u>70,000</u> | <u>140,000</u> |
| | <u>\$ 547,329</u> | <u>\$ 720,891</u> |

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

The financial status of the State of Michigan may result in future Executive Order Cuts from the Governor.

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 400 Dallas Street, Colon, MI 49040.

COLON COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS
JUNE 30, 2006

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>ASSETS</u> | |
| Current Assets: | |
| Cash and cash equivalents | \$ 665,608 |
| Accounts receivable | 11,971 |
| Taxes receivable (net) | - |
| Due from other governmental units | 1,053,728 |
| Inventories | <u>36,900</u> |
| Total current assets | 1,768,207 |
| Noncurrent Assets: | |
| Capital assets | 4,616,828 |
| Less: accumulated depreciation | <u>3,228,981</u> |
| Total noncurrent assets | <u>1,387,847</u> |
| Total assets | 3,156,054 |
| <u>LIABILITIES</u> | |
| Current Liabilities: | |
| Short-term note payable | 58,778 |
| Accounts payable | 326,310 |
| Accrued payroll | 281,822 |
| Accrued benefits | 184,633 |
| Accrued interest | 4,222 |
| Deferred revenue | 148,616 |
| Accrued severance pay | 70,000 |
| Notes payable, due within one year | 100,887 |
| Bonds payable, due within one year | <u>3,454</u> |
| Total current liabilities | 1,178,722 |
| Noncurrent Liabilities: | |
| Notes payable | 336,218 |
| Bonds payable | <u>36,770</u> |
| Total noncurrent liabilities | <u>372,988</u> |
| Total liabilities | 1,551,710 |
| <u>NET ASSETS</u> | |
| Invested in capital assets, net of related debt | 910,518 |
| Unrestricted | <u>693,826</u> |
| Total net assets | <u>\$ 1,604,344</u> |

See Notes to Financial Statements

COLON COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

| | | <u>Program Revenues</u> | | <u>Governmental</u> |
|---|---------------------|-------------------------|----------------------|---------------------|
| | | | | <u>Activities</u> |
| | | | | Net (Expense) |
| | | | | Revenue and |
| | | | | Changes in Net |
| | <u>Expenses</u> | <u>Charges for</u> | <u>Operating</u> | <u>Assets</u> |
| | | <u>Services</u> | <u>Grants/</u> | |
| | | | <u>Contributions</u> | |
| Functions/Programs | | | | |
| Governmental activities: | | | | |
| Instruction | \$ 4,095,964 | \$ 83,565 | \$ 819,189 | \$ (3,193,210) |
| Support services | 2,210,896 | 64,103 | 25,112 | (2,121,681) |
| Food services | 369,552 | 144,724 | 146,894 | (77,934) |
| Athletics | 171,490 | 46,980 | 15,827 | (108,683) |
| Interest on long-term debt 27,637 | - | 1,487 | (26,150) | |
| Depreciation (unallocated) | <u>150,723</u> | <u>-</u> | <u>-</u> | <u>(150,723)</u> |
| Total Governmental activities | <u>\$ 7,026,262</u> | <u>\$ 339,372</u> | <u>\$ 1,008,509</u> | (5,678,381) |
| General revenues: | | | | |
| Taxes | | | | |
| Property taxes, levied for general operations | | | | 633,091 |
| State aid not restricted to specific purposes | | | | 4,965,803 |
| Interest and investment earnings | | | | 21,557 |
| Other | | | | <u>39,650</u> |
| Total general revenues | | | | <u>5,660,101</u> |
| Change in Net Assets | | | | (18,280) |
| Net Assets - Beginning of year | | | | <u>1,622,624</u> |
| Net Assets - End of year | | | | <u>\$ 1,604,344</u> |

See Notes to Financial Statements

COLON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

| | <u>General</u> | <u>Other Nonmajor Governmental Funds</u> | <u>Total</u> |
|--------------------------------------|---------------------|--|---------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 664,773 | \$ 835 | \$ 665,608 |
| Accounts receivable | 11,971 | - | 11,971 |
| Due from other governmental units | 1,053,728 | - | 1,053,728 |
| Due from other funds | 219 | 63,554 | 63,773 |
| Inventories | <u>32,380</u> | <u>4,520</u> | <u>36,900</u> |
| Total assets | <u>\$ 1,763,071</u> | <u>\$ 68,909</u> | <u>\$ 1,831,980</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Short-term note payable | \$ 58,778 | \$ - | \$ 58,778 |
| Accounts payable | 275,834 | 50,476 | 326,310 |
| Accrued payroll | 281,822 | - | 281,822 |
| Accrued benefits | 184,633 | - | 184,633 |
| Due to other funds | 63,554 | 219 | 63,773 |
| Deferred revenue | <u>148,616</u> | <u>-</u> | <u>148,616</u> |
| Total liabilities | 1,013,237 | 50,695 | 1,063,932 |
| Fund Balances: | | | |
| Reserved: | | | |
| Inventories | 32,380 | 4,520 | 36,900 |
| Unreserved: | | | |
| Undesignated | <u>717,454</u> | <u>13,694</u> | <u>731,148</u> |
| Total fund balances | <u>749,834</u> | <u>18,214</u> | <u>768,048</u> |
| Total liabilities and fund balances | <u>\$ 1,763,071</u> | <u>\$ 68,909</u> | <u>\$ 1,831,980</u> |

See Notes to Financial Statements

COLON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total Fund Balances - Governmental Funds \$ 768,048

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds.

The cost of the capital assets is 4,616,828

Accumulated depreciation is (3,228,981)

Total 1,387,847

Long-term liabilities are not due and payable in the
current period and are not reported in the funds:

Accrued severance pay (70,000)

Notes payable (437,105)

Bonds payable (40,224)

Accrued interest payable on long-term liabilities is not
included as a liability in governmental activities (4,222)

Net assets of governmental activities \$ 1,604,344

See Notes to Financial Statements

COLON COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED June 30, 2006

| | <u>General</u> | <u>Other Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|-------------------|--|-------------------|
| Revenues: | | | |
| Local sources | \$ 748,396 | \$ 207,531 | \$ 955,927 |
| State sources | 5,466,902 | 17,553 | 5,484,455 |
| Federal sources | 339,905 | 134,125 | 474,030 |
| Interdistrict | <u>93,570</u> | <u>-</u> | <u>93,570</u> |
| Total revenues | 6,648,773 | 359,209 | 7,007,982 |
| Expenditures: | | | |
| Instruction | 3,965,454 | - | 3,965,454 |
| Supporting services | 2,283,640 | - | 2,283,640 |
| Food service | - | 369,552 | 369,552 |
| Athletics | - | 171,490 | 171,490 |
| Debt service | | | |
| Principal repayment | 100,265 | 3,297 | 103,562 |
| Interest and fiscal charges | 32,588 | 1,487 | 34,075 |
| Interdistrict | <u>200,510</u> | <u>-</u> | <u>200,510</u> |
| Total expenditures | <u>6,582,457</u> | <u>545,826</u> | <u>7,128,283</u> |
| Excess (deficiency) of revenues over expenditures | 66,316 | (186,617) | (120,301) |
| Other financing sources (uses): | | | |
| Operating transfers in | - | 108,683 | 108,683 |
| Operating transfers out | <u>(108,683)</u> | <u>-</u> | <u>(108,683)</u> |
| Total other financing sources (uses) | <u>(108,683)</u> | <u>108,683</u> | <u>-</u> |
| Net change in fund balances | (42,367) | (77,934) | (120,301) |
| Fund balances, July 1 | <u>792,201</u> | <u>96,148</u> | <u>888,349</u> |
| Fund balances, June 30 | <u>\$ 749,834</u> | <u>\$ 18,214</u> | <u>\$ 768,048</u> |

See Notes to Financial Statements

GOVERNMENTAL FUNDS

| | |
|--|--------------|
| Net change in Fund Balances - Total Governmental Funds | \$ (120,301) |
|--|--------------|

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

| | |
|----------------------|-----------|
| Depreciation expense | (150,723) |
|----------------------|-----------|

| | |
|-----------------|---------------|
| Capital outlays | <u>72,744</u> |
|-----------------|---------------|

| | |
|-------|----------|
| Total | (77,979) |
|-------|----------|

| | |
|--|-------|
| Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid | 6,438 |
|--|-------|

| | |
|---|--------|
| Accrued severance pay is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid | 70,000 |
|---|--------|

| | |
|--|---------|
| Repayment of bond principal and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 103,562 |
|--|---------|

| | |
|---|-------------|
| Change in Net Assets of Governmental Activities | \$ (18,280) |
|---|-------------|

- 15 -

COLON COMMUNITY SCHOOLS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

Student
Activities
Agency Fund

ASSETS

Cash and cash equivalents

\$ 85,326

LIABILITIES

Due to student groups

\$ 85,326

See Notes to Financial Statements

COLON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Colon Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

COLON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

COLON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

COLON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

COLON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|-------------|
| Buildings and additions | 20-50 years |
| Buses and other vehicles | 5-10 years |
| Furniture and other equipment | 5-10 years |

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

COLON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the district's financial statements.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COLON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School district did not have significant expenditure budget variances.

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2006, are composed of the following:

| | <u>Governmental Activities</u> | <u>Fiduciary Funds</u> | <u>Total Primary Government</u> |
|----------|------------------------------------|----------------------------|-------------------------------------|
| Deposits | <u>\$ 665,608</u> | <u>\$ 85,326</u> | <u>\$ 750,934</u> |

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$852,765. Of that amount, \$200,000 was covered by federal depository insurance coverage or secured and \$168,586 was uninsured and uncollateralized. The balance of \$484,179 was invested in bank municipal investment funds which are not categorized by risk.

COLON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

| | Balance <u>July 1, 2005</u> | <u>Additions</u> | Disposals and <u>Adjustments</u> | Balance <u>June 30, 2006</u> |
|---|--------------------------------|------------------|-------------------------------------|---------------------------------|
| Assets not being depreciated - Land | \$ 138,000 | \$ - | \$ - | \$ 138,000 |
| Capital assets being depreciated: | | | | |
| Buildings and building improvements | 2,831,546 | - | - | 2,831,546 |
| Buses and other vehicles | 946,471 | 72,744 | 56,038 | 963,177 |
| Furniture and equipment | <u>684,105</u> | <u>-</u> | <u>-</u> | <u>684,105</u> |
| Subtotal | 4,462,122 | 72,744 | 56,038 | 4,478,828 |
| Accumulated depreciation: | | | | |
| Buildings and building improvements | 1,911,340 | 68,541 | - | 1,979,881 |
| Buses and other vehicles | 657,281 | 65,318 | 56,038 | 666,561 |
| Furniture and equipment | <u>565,675</u> | <u>16,864</u> | <u>-</u> | <u>582,539</u> |
| Subtotal | <u>3,134,296</u> | <u>150,723</u> | <u>56,038</u> | <u>3,228,981</u> |
| Net capital assets being depreciated | <u>1,327,826</u> | | | <u>1,249,847</u> |
| Net capital assets | <u>\$ 1,465,826</u> | | | <u>\$ 1,387,847</u> |

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue include unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$148,616.

COLON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|--------------------------|-------------------|
| Due To/From Other Funds: | | |
| General Fund | Other governmental funds | \$ 219 |
| Other governmental funds | General fund | <u>63,554</u> |
| | | <u>\$ 63,773</u> |
| Interfund Transfers: | | |
| Transfer in: | Transfer Out: | |
| Other governmental funds | General Fund | <u>\$ 108,683</u> |

NOTE 7 - SHORT-TERM DEBT

| | |
|--|------------------|
| Short-term loan in the amount of \$400,000 | |
| Michigan Municipal Bond Authority's | |
| State Aid Note program, interest at | |
| 2.87%, final payment due July 21, 2006 | <u>\$ 58,778</u> |

NOTE 8 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include accumulated severance pay.

Long-term obligation activity can be summarized as follows:

Governmental Activities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Bonds | \$ 43,521 | \$ - | \$ 3,297 | \$ 40,224 | <u>\$ 3,454</u> |
| Notes | 537,370 | - | 100,265 | 437,105 | <u>\$ 100,887</u> |
| Other Obligations | <u>140,000</u> | <u>-</u> | <u>70,000</u> | <u>70,000</u> | <u>\$ 70,000</u> |
| Totals | <u>\$ 720,891</u> | <u>\$ -</u> | <u>\$ 173,562</u> | <u>\$ 547,329</u> | |

COLON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 8 - LONG-TERM DEBT - (Continued)

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

| Year ended June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------|-------------------|------------------|-------------------|
| 2007 | \$ 104,341 | \$ 22,960 | \$ 127,301 |
| 2008 | 109,872 | 17,429 | 127,301 |
| 2009 | 115,696 | 11,605 | 127,301 |
| 2010 | 122,032 | 5,473 | 127,505 |
| 2011 | 4,161 | 623 | 4,784 |
| Thereafter | <u>21,227</u> | <u>6,130</u> | <u>27,357</u> |
| | <u>\$ 477,329</u> | <u>\$ 64,220</u> | <u>\$ 541,549</u> |

Governmental Activities:

General obligation bonds consist of:

\$68,123 1998 School Improvement Bond
(Durant Settlement) the annual principal
and interest payments are to be made
directly by the State of Michigan \$ 40,224

Notes payable consist of:

Note payable to bank, annual payment of
\$122,518, including interest at 5.25%,
final payment due April 4, 2010 \$ 437,105

Other governmental activity long-term obligations include:

Accumulated severance pay payable in annual
amounts totaling \$70,000 \$ 70,000

COLON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10- DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$532,205, \$551,557, and \$529,458.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

COLON COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2006

| | Original Budget | Final Budget | Actual | Over (under) Final Budget |
|--|--------------------|-------------------|-------------------|------------------------------|
| Revenues: | | | | |
| Local sources | \$ 639,243 | \$ 748,370 | \$ 748,396 | \$ 26 |
| State sources | 5,666,844 | 5,640,961 | 5,466,902 | (174,059) |
| Federal sources | 338,916 | 397,450 | 339,905 | (57,545) |
| Interdistrict | <u>130,821</u> | <u>90,577</u> | <u>93,570</u> | <u>2,993</u> |
| Total revenue | 6,775,824 | 6,877,358 | 6,648,773 | (228,585) |
| Expenditures: | | | | |
| Instruction: | | | | |
| Basic programs | 3,342,735 | 3,217,059 | 3,114,082 | (102,977) |
| Added needs | 826,555 | 923,748 | 851,372 | (72,376) |
| Support services: | | | | |
| Pupil | 133,706 | 153,738 | 151,940 | (1,798) |
| Instructional staff | 92,892 | 66,374 | 51,258 | (15,116) |
| General administration | 240,963 | 251,004 | 229,247 | (21,757) |
| School administration | 441,288 | 432,259 | 418,317 | (13,942) |
| Business services | 188,638 | 191,475 | 183,153 | (8,322) |
| Operations and maintenance | 654,875 | 720,743 | 663,314 | (57,429) |
| Transportation | 435,372 | 503,331 | 458,170 | (45,161) |
| Other services | 98,587 | 138,518 | 128,241 | (10,277) |
| Debt service | 136,385 | 136,385 | 132,853 | (3,532) |
| Interdistrict | <u>290,129</u> | <u>226,935</u> | <u>200,510</u> | <u>(26,425)</u> |
| Total expenditures | <u>6,882,125</u> | <u>6,961,569</u> | <u>6,582,457</u> | <u>(379,112)</u> |
| Excess (deficiency) of revenues over expenditures | (106,301) | (84,211) | 66,316 | 150,527 |
| Other financing sources (uses): | | | | |
| Operating transfers out | <u>(119,204)</u> | <u>(119,204)</u> | <u>(108,683)</u> | <u>(10,521)</u> |
| Net change in fund balances | (225,505) | (203,415) | (42,367) | 161,048 |
| Fund balance, July 1 | <u>792,201</u> | <u>792,201</u> | <u>792,201</u> | <u>-</u> |
| Fund balance, June 30 | <u>\$ 566,696</u> | <u>\$ 588,786</u> | <u>\$ 749,834</u> | <u>\$ 161,048</u> |

OTHER SUPPLEMENTAL INFORMATION

COLON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED JUNE 30, 2006

REVENUES

| | |
|--|---------------------|
| Revenues from local sources | |
| Current property taxes - operating levy | \$ 633,091 |
| Interest on investments | 21,557 |
| Tuition | 31,110 |
| Transportation fees | 20,988 |
| Rental revenue | 2,000 |
| Miscellaneous revenues | <u>39,650</u> |
| Total revenues from local sources | 748,396 |
| Revenues from state sources | |
| Foundation | 4,962,506 |
| At risk | 140,982 |
| Special education | 145,402 |
| Michigan school readiness | 211,200 |
| Durant settlement | <u>6,812</u> |
| Total revenues from state sources | 5,466,902 |
| Revenues from federal sources | |
| Title I | 221,343 |
| Title V LEA Allocation | 1,753 |
| Title IIA Improving Teacher Quality | 72,966 |
| Title III Limited English Proficient grant | 10,037 |
| Secure Our Schools grant | 18,300 |
| Homeland Security grant | 4,002 |
| Handicapped preschool | 3,760 |
| Drug-free schools | 3,317 |
| Medicaid outreach | 173 |
| Technology literacy | <u>4,254</u> |
| Total revenues from federal sources | 339,905 |
| Revenues from other districts | |
| Transportation | 41,115 |
| CTE reimbursement | <u>52,455</u> |
| Total revenues from other districts | <u>93,570</u> |
| Total revenues | <u>\$ 6,648,773</u> |

COLON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES
YEAR ENDED JUNE 30, 2006

INSTRUCTION

Basic Programs

| | |
|---|------------|
| Elementary | |
| Salaries | \$ 899,307 |
| Benefits | 520,963 |
| Purchased services | 19,041 |
| Supplies, materials, and other | 52,258 |
| Capital outlay | <u>-</u> |
| Total elementary instruction expenditures | 1,491,569 |

Middle School

| | |
|--|------------|
| Salaries | 299,674 |
| Benefits | 165,064 |
| Purchased services | - |
| Supplies, materials, and other | <u>337</u> |
| Total middle school instruction expenditures | 465,075 |

High School

| | |
|--|-----------|
| Salaries | 605,610 |
| Benefits | 353,216 |
| Purchased services | 20,231 |
| Supplies, materials, and other | 36,500 |
| Capital outlay | <u>-</u> |
| Total high school instruction expenditures | 1,015,557 |

Pre-School

| | |
|---|----------------|
| Salaries | 86,101 |
| Benefits | 49,678 |
| Purchased services | 3,446 |
| Supplies, materials, and other | <u>2,656</u> |
| Total pre-school instruction expenditures | <u>141,881</u> |

| | |
|----------------------|-----------|
| Total basic programs | 3,114,082 |
|----------------------|-----------|

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2006

INSTRUCTION - Continued

Added Needs

Special education

| | |
|--------------------------------|--------------|
| Salaries | 274,611 |
| Benefits | 151,186 |
| Purchased services | 1,012 |
| Supplies, materials, and other | <u>1,329</u> |

| | |
|---|---------|
| Total special education instruction expenditures | 428,138 |
|---|---------|

Compensatory education

| | |
|--------------------------------|---------------|
| Salaries | 222,984 |
| Benefits | 99,282 |
| Purchased services | 18,539 |
| Supplies, materials, and other | <u>29,974</u> |

| | |
|--|---------|
| Total compensatory education instruction expenditures | 370,779 |
|--|---------|

Vocational education

| | |
|----------|---------------|
| Salaries | 31,392 |
| Benefits | <u>21,063</u> |

| | |
|--|---------------|
| Total vocational education instruction expenditures | <u>52,455</u> |
|--|---------------|

| | |
|-------------------|----------------|
| Total added needs | <u>851,372</u> |
|-------------------|----------------|

| | |
|--------------------------------|-----------|
| Total instruction expenditures | 3,965,454 |
|--------------------------------|-----------|

SUPPORTING SERVICES

Pupil Services

Guidance services

| | |
|--------------------------------|----------|
| Salaries | 79,494 |
| Benefits | 43,755 |
| Supplies, materials, and other | <u>-</u> |

| | |
|-------------------------|---------|
| Total guidance services | 123,249 |
|-------------------------|---------|

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

| | |
|--|---------------|
| Other pupil services | |
| Salaries | 22,319 |
| Employee benefits | <u>6,165</u> |
| Total other pupil services | 28,484 |
| Health services | |
| Purchased services | <u>207</u> |
| Total pupil supporting services expenditures | 151,940 |
| Instructional Staff Services | |
| Improvement of instruction | |
| Supplies, materials, and other | 3,238 |
| Library | |
| Salaries | 22,392 |
| Benefits | 7,547 |
| Purchased services | 2,420 |
| Supplies, materials, and other | <u>4,605</u> |
| Total library expenditures | 36,964 |
| Supervision direction | |
| Salaries | 8,522 |
| Benefits | 2,036 |
| Purchased services | - |
| Supplies, materials, and other | <u>498</u> |
| Total supervision direction expenditures | <u>11,056</u> |
| Total instructional staff services expenditures | 51,258 |
| General Administrative Services | |
| Board of education | |
| Salaries | 1,250 |
| Purchased services | 28,248 |
| Supplies, materials, and other | <u>4,916</u> |
| Total board of education expenditures | 34,414 |

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

Executive administration

| | |
|--------------------------------|--------------|
| Salaries | 119,611 |
| Benefits | 62,524 |
| Purchased services | 8,595 |
| Supplies, materials, and other | <u>4,103</u> |

| | |
|---|----------------|
| Total executive administrative expenditures | <u>194,833</u> |
|---|----------------|

| | |
|---------------------------------------|---------|
| Total general administrative services | 229,247 |
|---------------------------------------|---------|

School Administrative Services

Office of the Principal

| | |
|--------------------------------|--------------|
| Salaries | 256,170 |
| Benefits | 138,723 |
| Purchased services | 17,280 |
| Supplies, materials, and other | <u>6,144</u> |

| | |
|--------------------------------------|---------|
| Total school administrative services | 418,317 |
|--------------------------------------|---------|

Business Services

Fiscal charges

| | |
|--------------------------------|---------------|
| Salaries | 85,948 |
| Benefits | 57,971 |
| Purchased services | 17,923 |
| Supplies, materials, and other | <u>21,311</u> |

| | |
|-------------------------|---------|
| Total business services | 183,153 |
|-------------------------|---------|

Operation and Maintenance

Operation and maintenance of plant

| | |
|--------------------------------|---------------|
| Salaries | 71,063 |
| Benefits | 106,195 |
| Purchased services | 331,079 |
| Supplies, materials, and other | 130,420 |
| Capital outlay | <u>24,557</u> |

| | |
|---------------------------------|---------|
| Total operation and maintenance | 663,314 |
|---------------------------------|---------|

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

Pupil Transportation

Pupil transportation services

| | |
|--------------------------------|---------------|
| Salaries | 169,101 |
| Benefits | 108,051 |
| Purchased services | 41,860 |
| Supplies, materials, and other | 66,414 |
| Capital outlay | <u>72,744</u> |

Total pupil transportation 458,170

Technology

| | |
|--------------------------------|---------------|
| Purchased services | 89,839 |
| Supplies, materials, and other | 8,651 |
| Capital outlay | <u>29,751</u> |

Total technology 128,241

Total supporting services
expenditures

2,283,640

OTHER DISTRICTS

| | |
|----------------|----------------|
| Tuition | 65,748 |
| Other payments | <u>134,762</u> |

Total other districts 200,510

DEBT SERVICES

| | |
|-----------------------------|---------------|
| Principal payments | 100,265 |
| Interest and fiscal charges | <u>32,588</u> |

Total debt services 132,853

Total operating expenditures \$ 6,582,457

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

| | Debt Service Fund | <u>Special Revenue Funds</u> | | |
|--|-------------------------|------------------------------|------------------|------------------|
| | | <u>Food Services</u> | <u>Athletics</u> | <u>Total</u> |
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ 835 | \$ 835 |
| Due from other funds | - | 63,554 | - | 63,554 |
| Inventory | - | 4,520 | - | 4,520 |
| Total assets | <u>\$ -</u> | <u>\$ 68,074</u> | <u>\$ 835</u> | <u>\$ 68,909</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ 49,860 | \$ 616 | \$ 50,476 |
| Due to other funds | - | - | 219 | 219 |
| Total liabilities | - | 49,860 | 835 | 50,695 |
| Fund balances: | | | | |
| Reserved for inventory | - | 4,520 | - | 4,520 |
| Unreserved: | | | | |
| Undesignated | - | 13,694 | - | 13,694 |
| Total fund balances | - | 18,214 | - | 18,214 |
| Total liabilities and fund balances | <u>\$ -</u> | <u>\$ 68,074</u> | <u>\$ 835</u> | <u>\$ 68,909</u> |

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

| | <u>Special Revenue Funds</u> | | | |
|--|----------------------------------|--------------------------|------------------|------------------|
| | <u>Debt Service Fund</u> | <u>Food Services</u> | <u>Athletics</u> | <u>Total</u> |
| Revenues: | | | | |
| Local sources | \$ - | \$ 144,724 | \$ 62,807 | \$ 207,531 |
| State sources | 4,784 | 12,769 | - | 17,553 |
| Federal sources | <u>-</u> | <u>134,125</u> | <u>-</u> | <u>134,125</u> |
| Total revenues | 4,784 | 291,618 | 62,807 | 359,209 |
| Expenditures: | | | | |
| Food services | - | 369,552 | - | 369,552 |
| Athletics | - | - | 171,490 | 171,490 |
| Debt service | <u>4,784</u> | <u>-</u> | <u>-</u> | <u>4,784</u> |
| Total expenditures | <u>4,784</u> | <u>369,552</u> | <u>171,490</u> | <u>545,826</u> |
| Excess (deficiency) of revenues over expenditures | - | (77,934) | (108,683) | (186,617) |
| Other financing sources: | | | | |
| Operating transfers in | <u>-</u> | <u>-</u> | <u>108,683</u> | <u>108,683</u> |
| Net change in fund balances | - | (77,934) | - | (77,934) |
| Fund balances, July 1 | <u>-</u> | <u>96,148</u> | <u>-</u> | <u>96,148</u> |
| Fund balances, June 30 | <u>\$ -</u> | <u>\$ 18,214</u> | <u>\$ -</u> | <u>\$ 18,214</u> |

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
 FOOD SERVICE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2006

| | <u>Budget</u> | <u>Actual</u> | <u>Over (Under) Budget</u> |
|---|------------------|------------------|--------------------------------|
| Revenues: | | | |
| Local sources | \$ 140,750 | \$ 144,724 | \$ 3,974 |
| State sources | 14,000 | 12,769 | (1,231) |
| Federal sources | <u>158,206</u> | <u>134,125</u> | <u>(24,081)</u> |
| Total revenues | 312,956 | 291,618 | (21,338) |
| Expenditures: | | | |
| Salaries | 18,499 | 16,354 | (2,145) |
| Employee benefits | 26,565 | 27,784 | 1,219 |
| Purchased services | 143,143 | 142,341 | (802) |
| Supplies, materials and other expenditures | 164,969 | 183,073 | 18,104 |
| Capital outlay | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>353,176</u> | <u>369,552</u> | <u>16,376</u> |
| Net change in fund balances | (40,220) | (77,934) | (37,714) |
| Fund balance, July 1 | <u>96,148</u> | <u>96,148</u> | <u>-</u> |
| Fund balance, June 30 | <u>\$ 55,928</u> | <u>\$ 18,214</u> | <u>\$ (37,714)</u> |

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
ATHLETIC FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

| | <u>Budget</u> | <u>Actual</u> | <u>Over (Under) Budget</u> |
|---|----------------|----------------|--------------------------------|
| Revenues: | | | |
| Local sources | \$ 58,612 | \$ 62,807 | \$ 4,195 |
| Expenditures: | | | |
| Salaries | 89,011 | 88,610 | (401) |
| Employee benefits | 27,787 | 26,947 | (840) |
| Purchased services | 35,482 | 34,993 | (489) |
| Supplies, materials and other expenditures | 11,036 | 12,912 | 1,876 |
| Capital outlay | <u>14,500</u> | <u>8,028</u> | <u>(6,472)</u> |
| Total expenditures | <u>177,816</u> | <u>171,490</u> | <u>(6,326)</u> |
| Excess (deficiency) of revenues over expenditures | (119,204) | (108,683) | 10,521 |
| Other financing sources: | | | |
| Operating transfers in | <u>119,204</u> | <u>108,683</u> | <u>(10,521)</u> |
| Net change in fund balances | - | - | - |
| Fund balance, July 1 | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance, June 30 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

COLON COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STUDENT ACTIVITIES AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2006

| | Balances <u>June 30, 2005</u> | <u>Additions</u> | <u>Deductions</u> | Balances <u>June 30, 2006</u> |
|---------------------------|----------------------------------|-------------------|-------------------|----------------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ <u>84,789</u> | \$ <u>144,231</u> | \$ <u>143,694</u> | \$ <u>85,326</u> |
| <u>LIABILITIES</u> | | | | |
| Due to student groups | \$ <u>84,789</u> | \$ <u>144,231</u> | \$ <u>143,694</u> | \$ <u>85,326</u> |



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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Colon Community Schools, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Colon Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the Colon Community Schools basic financial statements and have issued our report thereon dated October 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Colon Community Schools internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Colon Community Schools financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Rick L. Strawser, CPA
Jerrold T. Norman (1941-1982)

October 9, 2006

Norman & Paulsen, P.C.